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September 2, 2016

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Federal Communications Commission
Office of the Secretary

By Electronic Filing

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: *Business Data Services In an Internet Protocol Environment; Special Access For Price Cap Local Exchange Carriers,* WC Docket Nos. 16-143 & 05-25; RM-10593

Dear Ms. Dortch:

On Friday, August 19, Leonard Steinberg, Beth Barnes, William Bishop, Mark Enzenberger, Lisa Phillips and Ruth Willard, all of Alaska Communications, outside economic consultant David Blessing, and outside counsel Richard Cameron and I, all on behalf of Alaska Communications, made a joint presentation (by tele-conference) to Stephanie Weiner, Bill Dever, and Bill Layton related to the Business Data Services ("BDS") rulemaking in the above-captioned dockets. Alaska Communications submitted a timely *ex parte* notice on Tuesday, August 23 in accordance with the Commission's rules. This letter supplements the information presented in the August 19 discussion and summarized in the August 23 letter.[1] It also supports the Comments and Reply Comments filed by Alaska Communications in these dockets.[2]

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[1] Letter from Karen Brinkmann, Counsel to Alaska Communications, to Marlene H. Dortch, FCC Secretary, WC Docket Nos. 16-143, 05-25, RM-10593 (filed Aug. 23, 2016).

[2] *Business Data Services in an Internet Protocol Environment, et al.,* WC Docket Nos. 16-143, 05-25, RM-10593, Comments of Alaska Communications (filed June 28, 2016) ("Alaska Communications Comments"), Reply Comments of Alaska Communications (filed August 9, 2016) ("Alaska Communications Reply Comments"). In the coming days, Alaska Communications expects to further supplement this letter with detailed declarations from its team of experts discussing market dynamics in Alaska, as well as Alaska Communications' BDS market share and pricing trends.

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With this letter Alaska Communications submits declarations from the following individuals: Beth Barnes, William Bishop, and David Blessing. These declarations support the prior advocacy of Alaska Communications, particular the observation that the Alaska-specific data reflected in the Commission's special access data collection fails to capture the extent of competition in the state's price cap areas. They provide factual confirmation that the Commission has no basis to regulate BDS provided by Alaska Communications, or declare its price cap service areas to be "non-competitive" under any recognized standard. The only non-competitive part of the BDS market in Alaska is the middle mile component, where GCI controls unregulated monopoly facilities to the Bush.

The declaration of Ms. Barnes provides historic and current information about the Alaska BDS market size and relative market share of Alaska Communications. Ms. Barnes provides concrete evidence that the price cap LEC does not possess the greatest share of any part of the Alaska BDS market.

The declaration of Mr. Bishop provides specific evidence of price competition as well as pricing trends. His testimony affirms that AT&T, GCI, and other carriers actively compete for BDS customers in most of Alaska Communications' service territories, which has put significant downward pressure on prices both before and since 2013 (the "snapshot" year for the Commission's special access data collection).

The supplemental declaration of Mr. Blessing addresses continuing problems with the Commission's expert analysis of the BDS market. Mr. Blessing demonstrates both the flaws in the national analysis and the mismatch between the assumptions underlying that analysis and the actual facts as they exist in Alaska. Mr. Blessing presents data demonstrating that BDS pricing in Alaska tends to be significantly lower than in most other price cap territories.

The declarations of Ms. Barnes and Mr. Bishop contain information that is "highly confidential" within the meaning of the protective orders in these proceedings.[3] Accordingly, Alaska Communications has designated as Highly Confidential the marked portions of the attached declarations.

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[3] *See Business Data Services In an Internet Protocol Environment, et al.,* WC Docket No. 16-143, Order (Wireline Competition Bur. rel. June 24, 2016) (extending the protective orders adopted in the special access rulemaking to Confidential Information filed in the business data services docket), citing *Special Access For Price Cap Local Exchange Carriers; AT&T Corp. Petition for Rulemaking to Reform Regulation of Incumbent Local Exchange Carrier Rates for Interstate Special Access Services,* WC Docket No. 05-25, RM-1-593, Modified Data Collection Protective Order, 30 FCC Rcd 10027 (WCB 2015); Data Collection Protective Order, 29 FCC Rcd 11657 (WCB 2014); Second Protective Order, 25 FCC Rcd 17725 (WCB 2010); Modified Protective Order, 25 FCC Rcd 15168 (WCB 2015).

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Pursuant to the applicable protective orders, Alaska Communications hereby files one copy of the Highly Confidential version of these materials with the Secretary, and encloses two copies of the Highly Confidential materials addressed to Christopher Koves of the Wireline Competition Bureau. Alaska Communications also is filing today one copy of the redacted version of these materials via ECFS, marked "Redacted – For Public Inspection."

Please direct any questions regarding this matter to me.

Very truly yours,

Karen Brinkmann
Counsel to Alaska Communications

cc: Christopher Koves

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
Business Data Services in an Internet Protocol Environment	)	**WC Docket No. 16-143**
Special Access for Price Cap Local Exchange Carriers	)	**WC Docket No. 05-25**
AT&T Corporation Petition for Rulemaking to Reform Regulation of Incumbent Local Exchange Carrier Rates for Interstate Special Access Services	)	**RM-10593**

Declaration of Beth R. Barnes on Behalf of Alaska Communications

September 2, 2016

Statement of Qualifications

1. I have over 15 years of experience in the area of market research and analysis, and over 3 years of experience working with Alaska Communications. I currently serve as Senior Manager, Marketing, Research and Analysis for Alaska Communications. Prior to my joining Alaska Communications, I held the position of Research Analyst with the State of Alaska. I hold a Bachelor of Science in Business Administration degree from Drake University and a Masters of Business Administration degree from the University of Wisconsin, Oshkosh.
2. In my role at Alaska Communications, I have led research and analysis of business data markets in Alaska. For the past several years I have lead the effort to estimate Alaska Market size by telecommunications product category. The categories included in the

analysis include Internet/Data, Voice, Video, IT/Managed Services, Business Wholesale, and Other Wholesale. This exercise is conducted up to 4 times per year. This exercise disaggregates data as reported in financial statements into the product categories and collects additional information from other external and internal sources. External sources include but are not limited to: Company SEC filings such as the 10k, USAC reports, annual reports (of non-public companies), and Gartner reports. The internal sources are used to fill in gaps in information not provided by external sources. As an example, our sales teams have knowledge and expertise in the RFP's we have lost, to whom they went and the revenue generated for that company. The information is verified using industry spend data as reported in Gartner reports. Based upon my experience, collection criteria and validation efforts, I believe my conclusions to be reasonably accurate.

3. My estimate for the overall size of the Alaska Business Internet/Data services market is **[BEGIN HIGHLY CONFIDENTIAL] [END HIGHLY CONFIDENTIAL]** This estimate includes both Business Data Services and "best effort" type services. As shown in the table below Alaska Communications has around 18 percent market share, GCI has around 62 percent market share and all other companies, such as MTA and Cordova Telephone Cooperative, have around 20 percent market share.

[BEGIN HIGHLY CONFIDENTIAL]

[END HIGHLY CONFIDENTIAL]

4. My team recently updated prior work to estimate Alaska Communications' market share for business services. I specifically instructed my staff to exclude DSL and other best efforts Internet access services to more closely approximate the FCC's proposed definition of "Business Data Services." While this analysis may not exactly match the FCC's proposed definition of Business Data Services, it should be considered directionally reliable. Our estimate of BDS markets size in Alaska from 2013 to 2015 is as follows:

   [BEGIN HIGHLY CONFIDENTIAL]

   [END HIGHLY CONFIDENTIAL]

5. My regional estimates of Alaska Communications' share of the business data services, excluding DS1 and DS3 services, are as follows:

   [BEGIN HIGHLY CONFIDENTIAL]

   [END HIGHLY CONFIDENTIAL]

   My regional estimates of Alaska Communications' share of the business data services, including DS1 and DS3 services, are as follows:

[BEGIN HIGHLY CONFIDENTIAL]

[END HIGHLY CONFIDENTIAL]

With the inclusion of DS1 and DS3 services, Alaska Communications' market share is not significantly different. Because market share is based upon revenue, internal DS1 and DS3 circuits are excluded, as no revenue is recognized in these situations.

6. My estimates are based on:
   a. Overall market size used was based upon the analysis summarized in point 3. The business data/internet market size was then further refined to more closely reflect the FCC definition of BDS.
   b. Total business data/internet market size was separated into two buckets: 1) BDS market size and 2) Retail Internet market size. This breakout was determined by ACS' actual distribution of revenue for these services with **[BEGIN HIGHLY CONFIDENTIAL] [END HIGHLY CONFIDENTIAL]** of revenue representing retail internet revenue and **[BEGIN HIGHLY CONFIDENTIAL] [END HIGHLY CONFIDENTIAL]** representing BDS revenue. We believe this methodology is representative in the market.

c. The products included in the definition of BDS for the purposes of this analysis included Ethernet, MPLS, DS1 and DS3 products, which provide high capacity connections with service level guarantees. The products excluded from the BDS category include business DSL, Long Haul, and business wholesale services.

d. Alaska Communications share is based upon internal reports of revenue by product. Then the total Alaska Communications revenue as defined as BDS revenue in point 6c was divided by total market size revenue as defined in point 6b.

e. The distribution of market size by market was determined by purchased data from GeoResults, a telecom database firm that estimates spend on data services by service location. The Alaska Communications market share estimate was derived by dividing actual company revenue by market by the estimated market size.

f. The data reported excludes both retail DSL and wholesale services in both market size and market share estimates.

7. It is my opinion that the data is sufficiently reliable to conclude that Alaska Communications has small to moderate shares of the business services market. Consequently, Alaska Communications does not dominate Alaska's markets for business data services.

8. I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge.

/s/ Beth R. Barnes
Senior Manager, Marketing, Research & Analysis
Alaska Communications Systems
(907) 564-1449 Office
beth.barnes@acsalaska.com

September 2, 2016

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	)	
	)	
AT&T Corporation Petition for Rulemaking to Reform Regulation of Incumbent Local Exchange Carrier Rates for Interstate Special Access Services	)	**RM-10593**

Declaration of William Bishop on Behalf of Alaska Communications

September 2, 2016

Statement of Qualifications

1. I have over 10 years of experience with selling business data services (BDS). For the last 6 years I have led business sales at Alaska Communications, and I currently serve as Senior Vice President, Business Markets. Prior to this experience I held positions with Alaska Communications and AT&T. I hold a Bachelor of Arts degree in Natural Sciences from University of Alaska - Anchorage. For the past twenty plus years I have been working in Alaska for Alaska Communications and other telecommunications providers.
2. In my role of selling business services, I have personal experience with the prices for business data services, and I have seen dramatic reductions in the prices for business services as a result of effective competition.

3. Prior to 2008, Alaska Communications struggled to compete with GCI and AT&T in providing business data services because of capacity limits on transport from Alaska to the Pacific Northwest. Since 2008, when Alaska Communications commenced operations on two submarine fiber optic network connecting Alaska with Oregon (one it built and one it purchased), competition for business data services in the on-road (or "connected") parts of Alaska has been robust.
4. For example, in 2015, Alaska Communications was awarded a contract for the State of Alaska WAN service. Previously, GCI had provided the State's WAN service, and GCI was a competitor for the 2015 contract. As a result of the competition for this service, Alaska Communications is now providing the State of Alaska with approximately twice the bandwidth at half the price relative to the GCI contract that had previously been in place.
5. When I seek to win a customer, I frequently am dealing with competitive bids from General Communication, Inc. ("GCI") and AT&T. Occasionally, I compete with other third parties, such as Verizon, Matanuska Telecom Association, DRS Technologies, and others.
6. Prices that I have offered for BDS in Alaska have declined approximately twenty to thirty (20-30) percent annually over the last 6-9 years. Set forth below are a few examples:

[BEGIN HIGHLY CONFIDENTIAL]

[END HIGHLY CONFIDENTIAL]

7. The competition for business services for small, medium and large businesses, continues to be intense in urban Alaska (Anchorage, Fairbanks and Juneau), and rural Alaska, mostly on the road system (Kenai, Soldotna, Nenana, Delta Junction, etc.). Alaska Communications has no facilities to Bush Alaska, including communities where Alaska Communications is the ILEC, and business services in these area are typically dominated by GCI due to GCI's control of essential middle mile service to these areas.

8. I find that best efforts dedicated internet access ("DIA") and business DSL is often used as a substitute for SLA-based BDS in Alaska, particularly in the small business market. Many of our small business customers opt for best efforts DIA (often with the enhanced security of virtual private network encryption), which offers the potential for far greater speed at any given price point, than the guaranteed (but slower) speed of SLA-based data services. Similarly, in light of the increasing reliability of modern networks, many customers will opt for the cost savings represented by best efforts DIA, in light of that service's lower price as compared to an SLA-based data service of similar speed and capacity. For example, we have had many small business customers switch from our Business Extreme Broadband ("BXB") service, which included certain SLA terms, to best efforts DIA service, as the price of the latter has fallen over time.
9. I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge.

/s/ William Bishop
Senior Vice President, Business Markets
Alaska Communications Systems
(907) 565-2244
Wbishop@acsalaska.com

September 2, 2016

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Supplemental Declaration of David C. Blessing[1]

I. Introduction

1. I have been asked by Alaska Communications to comment on various filings submitted in this proceeding in response to the Federal Communications Commission's (FCC's) Further Notice of Proposed Rulemaking (FNPRM).[2] This declaration supplements the declaration I submitted on August 8th.

2. Conflicting conclusions about whether incumbent local exchange carriers ("ILECs") have market power in their local service areas or whether it takes at

[1] Credentials provided in Declaration of David C. Blessing, Att. 1 to Reply Comments of Alaska Communications Systems (filed Aug. 9, 2016).

[2] *Business Data Services in an Internet Protocol Environment; Investigation of Certain Price Cap Local Exchange Carrier Business Data Services Tariff Pricing Plans; Special Access Rates for Price Cap Local Exchange Carriers; AT&T Corporation Petition for Rulemaking to Reform Regulation of Incumbent Local Exchange Carrier Rates for Interstate Special Access Services*, Tariff Investigation Order and Further Notice of Proposed Rulemaking, 31 FCC Rcd. 4723 (2016) ("FNPRM")

least two or at least 4 competitors before an area is competitive can be found in the most recent filings. The fact that declarants have reached the opposite conclusions despite analyzing the identical data set may be the result of many things but it certainly is indicative of the fact that the determination of market power may not lend itself to an indirect approach that fits all scenarios and all market conditions across the country. In this supplemental declaration I will show that conclusions that are based on an indirect analysis of market power and competition in the Business Data Services ("BDS") market do not hold up under examination of a direct analysis of the market in Alaska. The distinction between direct analysis and indirect analysis is critical in understanding market conditions in Alaska. Whereas analyses using the national data set attempt to measure competition and market power indirectly, based on the relationship between the number of competitors and changes in price for BDS services, in Alaska direct evidence of price changes and market share definitively shows that BDS is subject to intense competition. In addition to pricing and market share evidence, the locations of BDS service customers and revenues, as well as the locations where federal support dollars derived from BDS services are flowing, help to demonstrate where competition exists. As discussed in my earlier declaration, deficiencies in the Special Access Data Collection ("SADC") data for Alaska mean that it cannot fully describe the market or the level of competition in the state. As has been the case in many other proceedings, tools that may be applied nationally with reasonable results are not appropriate in Alaska.

II. While in Many Other Markets There Are Major Disputes Amongst Market Participants Whether BDS is Competitive, There is Little Dispute that the BDS Market is Competitive in Alaska

3. Several parties have submitted comments and declarations in this proceeding. Depending on which document you read the conclusion reached is that "ILECS are likely to be able to exercise market power in the provision of business data services in most markets – including at bandwidths at or below 50 Mbps (such as DS1 and DS3 connections) and bandwidths above 50 Mbps…"[3] or "although the Commission may have believed that incumbent LECs had market power years ago when it began this proceeding, more recent market place data do not support this claim."[4] In addition, there are polar opposite conclusions with regard to the question of whether a market with only two competitors may be competitive. Professor Baker stated "[t]wo firms (or one firm and a potential entrant) are not sufficient for markets with for business data services to be competitive."[5] On the other hand, the Compass Lexicon economists state that "the marketplace for BDS exhibits the characteristics that tend to ensure robust competition with two providers."[6]

4. Based on the filings of two major BDS competitors in Alaska, Alaska Communications and GCI, it is clear that both believe that in all the areas where both operate the BDS market is highly competitive and BDS pricing are moving

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[3] Reply Declaration of Jonathon B. Baker on Competition and Market Power in the Provision of Business Data Services, WC Docket 05-25, August 9, 2016.

[4] Israel, Rubinstein and Woroch Ex Parte letter of August 22, 2016.

[5] Reply Declaration of Jonathon B. Baker on Competition and Market Power in the Provision of Business Data Services, WC Docket 05-25, August 9, 2016.

[6] Israel, Rubinstein and Woroch Ex Parte letter of August 22, 2016.

downward as a result. GCI states that regulation is not required except in those rural areas where Alaska Communications does not have any last mile competition.[7] Alaska Communications agrees that BDS competition flourishes in urban areas and other locations on the road system and power grid where it, GCI, and others have access to competitive middle mile service. But Alaska Communications has demonstrated that there is no hope of competition in areas where GCI controls an unregulated monopoly over terrestrial middle mile facilities.[8] From all evidence, competition is flourishing in Alaska locations where both GCI and Alaska Communications operate when both have competitive or regulated access to last-mile facilities *and* middle-mile facilities. GCI and Alaska Communications also agree that a national Competitive Market Test based on the aggregate SADC data, along with a finding that more than two facilities-based competitors are necessary for robust competition, is not appropriate for Alaska.[9] I certainly agree that there is direct evidence that two major competitors operating in Alaska markets have led to robust competition in the BDS market. In my initial declaration I cite Alaska Communications and GCI investor calls where the companies have admitted to their investors and the financial community that competition has been and is continuing to compress prices in the business data markets to the point that it has a measurable impact on financial results. As one might expect, publicizing such information is not something that company would

7 GCI Reply Comments at para. 8

8 Alaska Communication at iii.

9 GCI Reply Comments at para. 9.

do unless the impact of competitive pressure was significant. In addition, I show that in the E-rate and Rural Health Care and federal contracts market segments the distribution of market share is relatively even where the two competitors each have terrestrial middle mile facilities.[10]

III. The Inconclusive Results of the National Analysis Presented in This Proceeding Are the Results of Attempts to Use Indirect Analyses of Incomplete Data to Determine Market Power

5. Several declarants in this proceeding, including the FCC's outside econometrician Dr. Marc Rysman, have used the 2013 Special Access Data Collection ("SADC") data on competitive presence and price movements in attempts to determine whether market power exists in the BDS markets. They conduct their analyses under a set of assumptions that include: where market power exists, ILEC BDS prices will not be forced down; and the more competitors in the market, the greater the amount of downward pressure on prices. Based on SADC data set, many conclude that market power exists in the BDS market. Others reach the opposite conclusion that there is no market power based on the analysis of the same data. Their common methodology examines the relationship between the number of competitors and price movements to determine indirectly whether market power exists or not in the hopes that their analysis may be used to establish a competitive market test that may be used to determine which BDS markets become subject to additional regulation by the FCC.

[10] See Blessing Declaration Filed as Attachment 1 to the Reply Comments of Alaska Communications, WC Docket No. 05-25, August 9, 2016

6. I have examined the SADC data for Alaska and find that it does not accurately describe the BDS market in Alaska. As discussed in my earlier declaration, the SADC data for Alaska indicates that Alaska Communications provides BDS to several times the number of locations compared with GCI, and earns several times the revenue from BDS services. This is contradicted by financial data filed with the Securities and Exchange Commission ("SEC"), by GCI and by Alaska Communications, along with the public comments of both firms. While the SADC data indicate that Alaska Communications provides a larger number of special access circuits, serves a larger number of customer locations, and derives greater revenues from special access services, these data are at odds with the reality of the Alaska market – something that both firms readily admit.

Financial Comparison: GCI and Alaska Communications

		GCI		Alaska Communications
Market Capitalization	$	515,940,000	$	86,250,000
Total Assets (Net)	$	1,982,308,000	$	463,601,000
Total Revenue	$	978,534,000	$	232,817,000
BDS Revenue				
Business Services: Data	$	142,033,000		
Business Managed Broadband Data	$	127,083,000		
Business Broadband			$	50,007,000
Managed IT Services			$	3,316,000
Wholesale			$	36,792,000
Total BDS Revenue	$	269,116,000	$	90,115,000

Sources:

Market Capitalization	Yahoo Finance: Aug 31, 2016
Total Assets (Net)	2015 10-K Report: GCI page 26; Alaska Communications F-4
Total Revenue	2015 10-K Report: GCI page 26; Alaska Communications F-4

7. The declarations of Beth Barnes and Bill Bishop of Alaska Communications, submitted simultaneously with this declaration, discuss the state of competition in the Alaska market and the effect of competition on BDS prices over time. Their analyses, coupled with company statements to investors regarding price compression, and publicly filed revenue data, all support the conclusion that many of the assumptions underlying the FCC's Further NPRM do not hold for Alaska. For example, it has been assumed throughout this proceeding that if market power exists in the BDS market, it *is held* by the ILEC, and the price cap ILEC *is* the dominant player in any BDS market in its local serving areas. In my previous declaration I showed that these assumptions do not hold in Alaska because, by any measure, Alaska Communications *is clearly not* the dominant provider and that if any market power exists in the BDS markets in Alaska *it is not held* by Alaska Communications.

8. The fact that different analyses of the same data result in opposite conclusions indicates that the results are not necessarily clear or beyond dispute. This is not surprising because, by definition, attempts to analyze a problem by indirect means requires that a set of assumptions be made. For example, it has been assumed by Dr. Rysman that, if market power exists, it must be held by the ILEC and that the ILEC is always the dominant provider in a market.[11] I find that these assumptions are without foundation in today's evolving telecommunications market. As the telecom market has evolved from a primarily voice services market to one that is

[11] FNPRM, Attachment: Marc Rysman, "Empirics of Business Data Services," White Paper, at 214 (April 2016).

far more predominantly focused on non-voice content and high-speed data transmission, we have seen market boundaries blur. Cable companies, electric companies, Internet access providers, and Internet content providers, not to mention wireless operators, all freely compete in what once was the exclusive realm of the telephone company. Many of these new participants are every bit as large, innovative and financially strong as the largest ILEC – many are larger. To the extent that these competitors identify an area with an attractive level of potential business data revenue, they have the resources to expand their networks to compete for those customers. Once they have facilities in a given area, the incremental cost to connect additional customers is low.

9. A further assumption that is contested among the parties is that, if ILEC prices are lower in areas with multiple competitors, then the ILEC has market power and are exploiting it in areas where prices are not lower.[12] While this assumption seems to be convoluted, and would be better expressed as "ILECs likely do not have market power in areas where prices are lower," it is nonetheless dependent on a further assumption that the only thing causing lower ILEC prices for BDS services is multiple competitors. It could just as well be the case that the lower prices in a given area may be caused by lower costs and lower costs coupled with relatively strong demand for BDS services result in the entry of multiple competitors. There has not yet been an analysis of the SADC data that supports the assumption that movement in ILEC BDS prices is *uniquely* caused by changes in the number of providers. Therefore, the underlying assumption upon which the

[12] Israel, Rubinstein and Woroch, Ex Parte letter of August 22, 2016.

conclusions that multiple providers resulting in lower ILEC prices means ILECs have market power reached from analysis of the SADC data may not hold and should not be the basis for regulate or not regulate decisions.

10. In contrast to many other parts of the country, in Alaska we know exactly why prices for BDS services are falling, as the two major competitors have informed us through communications with their investors. Both GCI and Alaska Communications acknowledge that they have been forced to reduce their prices because of competitive pressures. For example, GCI stated to investors:

> "Our largest carrier customer's contract expires at the end of the year. The second largest carrier contract is up here in the relatively near future. We expect to keep both of those carries on our network. I think we said probably two year ago we may announce that fiber cable, that we expect to see 30% to 40% price compression in the enterprise and carrier market and it's fair to say we haven't been disappointed in that expectation."[13]

Alaska Communications was equally frank in stating that competition with GCI has forced it to reduce business data prices. In its 2015 10-K filing with the SEC Alaska Communications admitted that the "telecommunications industry in Alaska is competitive and creates pressure on our pricing and customer retention efforts" while citing GCI as its principal competitor.[14] The implication of these results is that customers in Alaska are well aware of the fact that in most of the areas served by Alaska Communications as the local provider there is a competitor that this not only capable of providing a competing service to the ILEC but is, in fact, a larger player in the business data market. As was pointed

[13] John Lowber, Transcript GCI 4th Qtr 2008 Earnings Call, http://seekingalpha.com/article/125737-general-communications-inc-q4-2008-earnings-call-transcript?page=8

[14] *Id.*

out by the Compass Lexicon economists, this is indicative of a sophisticated customer base that is quite capable of leveraging two competitors against each other.[15]

IV. The Record Does Not Demonstrate that DS1 and DS3 Services Should Be Subject to Retroactive Regulation

11. The overall BDS market in which these traditional TDM services compete may include a wider variety of newer, lower priced substitutes. Depending on individual customer requirements DS1 and DS3 are competing with both IP-based services with symmetric upload and download speeds and SLAs, and/or best efforts IP-based services, such as business DSL. In general, the greater the number of close substitutes the lower the amount market power.

12. Experience in Alaska bears this out. Alaska Communications' demand for DS1 and DS3 services is declining even as overall demand for BDS services is expanding rapidly in the state. In addition, the Companies' DS1 and DS3 rates are consistent with those of other price cap carriers, even though costs in Alaska are generally considered higher than those in the lower 48. As Mr. Bishop makes clear in his declaration, business DSL and other best efforts services are competing directly against Alaska Communication's DS1 and DS3s especially for smaller and medium-sized customers. This competition has had a noticeable effect, indicating a distinct lack of market power. Since 2010, Alaska has seen an explosion in the demand for BDS services and best efforts services sold to business customers. This is clear from the large increase in business data

[15] Israel, Rubinstein and Woroch Ex Parte letter of August 22, 2016.

revenues reported in the financial statements of GCI and Alaska Communications. From 2009 to 2015, the Form 10-K annual reports filed by the companies show these revenues have increased by 58% for Alaska Communications and 149% for GCI.

13. As reported in my initial declaration, GCI currently receives almost three times the business data revenue of Alaska Communications. However, during the same time frame, the demand for DS1 and DS3 services have declined by 7 and 3 % respectively.[16] If Alaska Communications were to have market power for the DS1 and DS3 services, one would expect to see its demand for these services follow the overall growth in the BDS market. The shrinking demand levels actually observed indicate that DS1 and DS3 services are quickly becoming obsolete, supplanted by more advanced, close substitutes offered by Alaska Communications and other competitors. Customers desiring these lower bandwidths are being offered and selecting IP-based services, including "best efforts" alternatives, that are generally faster and lower priced. Contrary to the Commission's assumptions, this indicates that there are a significant number of customers that do not require guaranteed speeds and SLAs but instead can meet their data needs with options with greater potential speeds and much lower prices. Specifically, this evidence tends to support Alaska Communications' contention that DS1 and DS3 are not separate markets unto themselves, requiring FCC intervention, but rather are part of the larger BDS market where customers make choices based on price as much as service level guarantees.

[16] See Attachment 1 to this declaration.

14. Reviewing the DS1 and DS3 rates currently in effect in Alaska Communications' FCC #1 Interstate Tariff also provides support for the conclusion that the Company doesn't have market power. Despite Alaska generally having higher costs than the rest of the nation, the rates charged by Alaska Communications for DS1 and DS3 channel terminations are on the low end of range of prices charged by U.S. price cap carriers. Attachment 2 to this declaration illustrates that the DS1 and DS3 rates charged by Alaska Communications are relatively low compared to others around the nation. The relatively low Alaska Communications DS1 and DS3 pricing is itself evidence that the company lacks market power in the BDS market.[17]

V. Both Competitors in Alaska Claim that Regulation Is Needed Where the Other Has Control of a Bottleneck Component of BDS, but Alaska Communications' Last Mile Facilities (Although not a Bottleneck) Are Already Regulated

15. Both Alaska Communications and GCI state that regulation is needed where a single provider controls an essential input to BDS services. For GCI, this means Alaska Communications' control of the last mile in certain rural areas. For Alaska Communications, the statement refers to GCI's control of bottleneck terrestrial middle-mile facilities in Bush areas in Alaska. (Due to their distance from existing infrastructure, Bush communities must have a terrestrial broadband middle-mile connection in order to realize the benefits of advanced services such as high-capacity BDS.) In his declaration attached to Windstream's Reply

[17] Notably, Verizon and Windstream, both advocates of increased regulation of BDS, appear to have some of the highest BDS rates in the nation.

Comments, Dr. Willig provides the economic justification for regulating markets where a single provider has control of an essential component to BDS services:

> "Absent such regulation, market leaders have the incentive and ability to set wholesale rates at inefficiently high levels in order to raise their downstream rivals' costs, forcing even more efficient competitive providers out of the market. The result is higher prices for the customers of communications solutions that rely on business data services and reduced investment."[18]

Dr. Willig makes the case that control of a bottleneck input to BDS will allow the firm having such control the ability to control the price a competitor may charge for the downstream BDS service. This ability has the effect of allowing the firm with bottleneck control of an essential input to control the retail market for the BDS service – *i.e.,* have market power over BDS. It is clear that a firm will realize this ability whether the essential input to the downstream BDS service is the last mile or the middle mile.

16. It follows that, to the extent that either Alaska Communications or GCI has control over a bottleneck input in a given area, that price for that input should be regulated. Currently the last mile provided by Alaska Communications in all of its rural service areas, including those where GCI claims there is no last mile completion, are regulated by the Regulatory Commission of Alaska ("RCA") for intrastate services and the FCC for interstate services. In fact, the present proceeding results from the fact that the special access rates of price cap carriers such as Alaska Communications *are regulated* by the FCC. In its Reply Comments, GCI complains that Alaska Communications is exploiting its market

[18] Windstream Reply Comments, WC Docket No. 05-25, Declaration of Robert D. Willig at para. 42 (filed August 9, 2016).

power through its special construction charges and its interconnection policies.19 However, Alaska Communications' Local Tariffs contain the terms, conditions and rate policies under which it responds to GCI "line extension" requests, and Alaska Communications' federal tariff contains analogous information that governs "special construction" of facilities to be used for interstate services. Any disputes to these terms are subject to resolution by the RCA and FCC, respectively. GCI similarly has access to Alaska Communications' last mile facilities in the interstate jurisdiction under a tariff that is filed with the FCC and is subject to FCC resolution of any disputes. And, in any event, Alaska Communications' local loops do not truly represent bottleneck facilities. Alaskan Bush villages, are separated from the population centers of Anchorage, Fairbanks and Juneau, and one another, by hundreds of miles without connecting infrastructure such as roads, cables, or electric lines, though individually they are relatively compact. The last mile challenge is thus comparatively easier to overcome – using GCI's cable plant or other facilities, self-deployed wireless or wireline local loop technologies, or, where available, service or facilities provided by Alaska Communications.

17. In contrast, GCI's terrestrial middle-mile facilities, even those in areas where no other terrestrial facilities exist, currently are not regulated. As I demonstrated in my initial declaration in this proceeding, the lack of regulation of GCI's TERRA network, a bottleneck middle-mile facility serving western Alaska, has resulted in a monopoly situation where GCI controls 90% of the E-rate and

[19] Reply Comments of GCI, WC Docket 05-25, August 9, 2016

RHC contract in the towns and villages served by TERRA, including Bush villages where Alaska Communications is the incumbent LEC.[20]

VI. Conclusion

18. Analysis of the SADC data to indirectly determine if market power exists in BDS markets has led to inclusive results. Parties on both sides of the debate analyze the same data and come to opposite conclusions. What is clear is that the results are not definitive enough to make any determinations about whether it is appropriate to regulate or re-regulate services based on the results of these analyses. In contrast, examination of the direct evidence that competition has led to price reductions in Alaska over time makes it clear that, at least for most of the state, there is no need to regulate LEC-provided BDS services. Even the non-ILEC competitor agrees that there is no need to regulate in the areas where the vast majority of the population or the demand for BDS services is found. However, where bottlenecks in essential inputs for BDS services exist, there is a need for regulation – namely, where GCI is controls monopoly terrestrial middle mile facilities. Even assuming that bottlenecks also exist in those rural areas where Alaska Communications has control over last mile facilities, Alaska Communications is already regulated with respect to its last mile facilities. GCI, in contrast, enjoys an unregulated middle mile monopoly in areas served by its TERRA middle mile network, including Bush villages where Alaska Communications is the incumbent LEC. In order to promote competition and

[20] Blessing Declaration Filed as Attachment 1 to the Reply Comments of Alaska Communications, WC Docket No. 05-25, August 9, 2016.

efficient pricing in BDS services in TERRA served areas, some form of regulation is necessary to ensure wholesale access t0 bottleneck middle mile facilities at reasonable prices.

19. I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge.

/s/ David C. Blessing

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September 2, 2016

Supplemental Declaration of David C. Blessing

Attachment 1

Alaska Communications TARIFF F.C.C. No. 1

Special Access High Capacity Channel Termination 1.544 mbps

	July 1, 2010	July 1, 2016
	Demand	Demand
AKAN - ACS Anchorage	18,838	18,170
AKFB - ACS Fairbanks	4,185	3,225
AKJU - ACS Juneau	4,653	3,321
AKGL - ACS Greatland	692	462
AKGS - ACS Glacier State	7,625	8,060
AKSK - ACS Sitka	3,013	4,611
Total	39,006	37,848
Percentage Change in Demand	-2.97%	

Special Access High Capacity Channel Termination 44.76 mbps

	July 1, 2010	July 1, 2016
	Demand	Demand
AKAN - ACS Anchorage	1,342	1,246
AKFB - ACS Fairbanks	274	283
AKJU - ACS Juneau	379	326
AKGL - ACS Greatland	-	-
AKGS - ACS Glacier State	468	478
AKSK - ACS Sitka	91	53
Total	2,555	2,386
Percentage Change in Demand	-6.62%	

Reply Declaration of David C. Blessing

Attachment 2

FCC TARIFF DS1 & DS3 CT Overview

July 1, 2016

	DS1 CT Rate	DS3 CT Rate
AKAN - ACS Anchorage	$ 102.84	$ 1,515.17
AKFB - ACS Fairbanks	$ 105.29	$ 949.51
AKJU - ACS Juneau	$ 82.96	$ 739.90
AKGL - ACS Greatland	$ 119.17	$ 1,236.00
AKGS - ACS Glacier State	$ 94.64	$ 834.23
AKSK - ACS Sitka	$ 116.32	$ 1,070.70
Puerto Rico Telephone Company	$ 44.16	$ 779.59
Puerto Rico Telephone Company - Central	$ 44.16	$ 779.59
Virgin Islands Telephone	$ 112.21	$ 1,365.36
Cincinnati Bell Telephone	$ 145.00	$ 750.00
Hawaiian Telcom	$ 257.50	$ 1,125.00
Hawaiian Telcom - Price Band A	$ 268.80	$ 1,290.00
Hawaiian Telcom - Price Band B	$ 275.00	$ 1,320.00
Hawaiian Telcom - Price Band C	$ 281.30	$ 1,350.00
Hawaiian Telcom - N-MSA	$ 235.00	$ 1,125.00
Windstream Georgia	$ 94.99	$ 1,500.00
Windstream Kentucky	$ 205.95	$ 3,627.47
Windstream Alabama	$ 140.00	$ 2,109.01
Windstream Pennsylvania	$ 130.00	$ 1,300.00
Windstream Mississippi	$ 150.00	$ 2,304.90
Pacific Bell Telephone - Zone 1	$ 130.00	$ 2,200.00
Pacific Bell Telephone - Zone 2	$ 137.00	$ 2,200.00
Pacific Bell Telephone - Zone 3	$ 145.25	$ 2,200.00
BellSouth Telecommunications - Zone 1	$ 168.00	$ 1,840.00
BellSouth Telecommunications - Zone 2	$ 175.00	$ 1,840.00
BellSouth Telecommunications - Zone 3	$ 180.00	$ 1,840.00
Nevada Bell	$ 124.55	$ 2,125.00
Verizon Telephone - Rate Zone 1	$ 207.02	$ 2,310.00
Verizon Telephone - Rate Zone 2	$ 229.25	$ 2,425.50
Verizon Telephone - Rate Zone 3	$ 243.27	$ 2,541.00
Verizon Telephone - Price Band 4	$ 239.17	$ 3,206.50
Verizon Telephone - Price Band 5	$ 300.56	$ 3,366.83
Verizon Telephone - Price Band 6	$ 310.64	$ 3,527.15